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Guatemala

Retail Food Sector

Report

2001

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Report Highlights:

The supermarket concept has grown tremendously in the last seven years, going from 66 retail outlets in 1994 to 134 in 2000. There are ample opportunities for U.S. companies to enter the market. Entry is facilitated when using a local distributor or agent. Best growth products in recent years have been red meats, snack foods, poultry, and processed fruits and vegetables, among others.

Includes PSD changes: No
Includes Trade Matrix: No
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Guatemala [GT1], GT

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I. MARKET OVERVIEW

A. ECONOMIC SITUATION

Guatemala's economy is the largest in Central America, with a GDP of about \$19 billion. It is also one of the most important U.S. trading partners in the Caribbean Basin region. U.S. exports to Guatemala in 2000 totaled \$1.6 billion, which includes U.S. agricultural products exports of \$258 million. Total U.S. agricultural, fish and forestry exports to Guatemala in 2000 were \$263 million. Overall, consumer-oriented goods account for 32% of all U.S. agricultural exports to Guatemala. Furthermore, the first seven months of 2001 show an increase of 4.6% over the previous year of U.S. agricultural exports to Guatemala.

During the decade of the nineties, Guatemala's economy grew at an average of 4% a year. However, since October of 1998, the economy has not been able to maintain such a brisk growth. The slow down that began in the fall of 1998 has carried over into the last three years when growth averaged less than 3.5%. Furthermore, the economy in 2001 has suffered and is expected to grow by less than 2.5%. Many factors have contributed to the slow down of the economy, among these are the following:

- Low international prices on sugar and coffee. Coffee and sugar amount to 25% and 11.2% respectively of Guatemala's total exports.
- High cost of borrowing money with commercial interest rates in the range of 19-26%, caused by lack of liquidity and huge deficit spending by the GOG.
- Uncertainty created a lack of transparency and by the GOG constantly changing the rules affecting business. This creates a negative environment for investment. Many firms are taking a wait and see attitude before they invest in any form of production.
- During this year there has been a major increase in the rate of depreciation of the local currency, which lost 5% of its value against the U.S. dollar in just the last three months of August - October.

Since September 11, 2001, the 11 major hotels in the metropolitan area have reported an occupation rate of only 47% and they don't expect improvements until the second quarter of 2002.

Inflation had been kept under control during the last five years, at annual rates of less than 7% however since March of 2001, the inflation rate has been increasing and it is estimated exceed 10% this year. This will be the first time since 1996 that inflation is above 10%.

B. INCOME DISTRIBUTION

Despite the slower economy, demand for U.S. products continues to grow, and opportunities exist in many sectors. However, it is important to understand the income distribution of the country, in order to properly target markets.

Of a population of 12 million, income distribution is concentrated in the upper class, with 63% of income in the hands of the top 20% of the population. The polarity in income distribution determines a particular pattern of consumption, where the majority of the population consumes merely for subsistence. Therefore, luxury goods can only be targeted to a significant small portion of society. However, U.S. food products are very competitively priced and are sought out by both high income and middle income consumers. Many U.S. food products, such as grains, poultry, dairy and pork, are cheaper than domestically produced products.

Guatemalan Household Expenditures

Guatemalan households spend relatively more money on food than education and health. Food and non-alcoholic beverages account for 37.1% of the basic basket. Consequently, Guatemalan consumers are extremely sensitive to price changes in food items.

ITEM	%
Food & Non-Alcoholic Beverage	37.1
Shoes & Clothing	7.0
Rent, Electricity and Water	21.6
Furniture & Household Goods	6.7
Health	7.3
Transportation & Communication	7.7
Recreation	4.6
Education	3.3
Other	4.6

There is also a big difference between rural and urban populations. The urban population spends 31.6% of their income on food purchases, while the poorer rural population spends 46.9%. Furthermore, when we look at Guatemala City, the picture changes even more. Only 28.8% of expenditures in the metropolitan area are spent on food purchases. Realizing where the wealth is, the supermarkets have expanded first in the metropolitan area, and then in larger cities, leaving the smaller towns without any units. This also explains why most distributors only cater to the metropolitan market and have ignored the interior of the country. However, there are ample opportunities in the interior for U.S. products, especially those products that are priced for low income and middle income markets. Furthermore, the growth of both urban populations and the increasing middle class, offer relative potential in the interior of the country for U.S. firms interested in forming alliances with smaller distribution companies that cater to the markets in the interior of the country, and use route systems to get products to the mom & pop stores in the smaller cities and towns.

- The urban population is estimated at 4.7 million, with an annual growth rate of 3.2%.
- The middle class is estimated at 3.8 million with an annual growth rate of 1.6%.

NUMBER OF MAJOR METROPOLITAN AREAS	37 ^{/1}
PER CAPITA GROSS DOMESTIC PRODUCT	\$1639.8
PER CAPITA FOOD EXPENDITURES	\$265
UNEMPLOYMENT RATE	5.9% ^{/2}
PERCENT OF FEMALE POPULATION EMPLOYED	27.4%
EXCHANGE RATE (Oct. 2001)	\$1.00=Q8.08

Source: The Ministry of Economy

1/ These are cities with more than 100,000 inhabitants.

2/ This is the official Rate, but underemployment is estimated to be 46%.

When looking at Guatemala, it is important to remember that almost 60% of the population lives on under \$2 a day. Therefore, the national per capita income of \$1639.8 is somewhat deceiving.

C. ADVANTAGES AND CHALLENGES

Advantages	Challenges
Of the 12 million Guatemalans 2.4 million inhabitants are in a position to afford high-end imported foods.	The economic condition and the constant devaluation of the local currency limit imports.
Guatemalans view U.S. products as of higher quality and safer than national products.	There is a lack of brand awareness among importers, retailers and especially consumers.
The growing retail industry, and the growing demand for new and better products by consumers, create an exceptional opportunity for new imported goods	Some imports cost much more than nationally produced products, and purchasing power for many consumers is lacking.
Importers generally like trading with U.S. exporters because of reliability	Imports must confront a complicated bureaucratic process, and there are high tariffs and quotas on various items.
The growing food processing industry is looking for new imported food ingredients	Infrastructure and distribution limitations, especially on perishable products.
Guatemala's proximity to the U.S. favors U.S. products.	Regional competition is strong, especially from Mexico, El Salvador and Chile
Travel to U.S. among Guatemalan business class is very high, facilitating exposure of U.S. products.	Effective market promotion is needed to accomplish product differentiation and overcome price sensitivity.

D. MARKET SIZE

Guatemala in 2000:

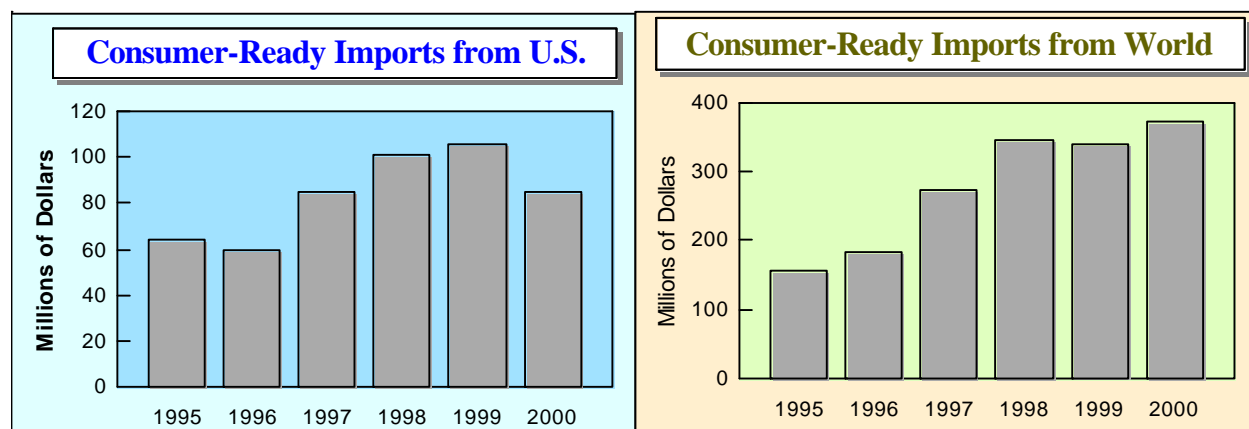
- Total food expenditures more than \$3 billion
- Total consumer-oriented and edible fisheries' market estimated at \$1 billion
- Total consumer-oriented and edible fisheries' imports were \$371 million. U.S. represents 23% of this market with exports of \$85 million.
- 32% of food purchases were made in supermarkets, up from 26% in 1999.

To understand domestic competition, it is important to know how much is consumed locally and how much is exported. Guatemala's processed food industry is not as large as others, but it is significant for the size of the country. Guatemala exported \$623 million in 2000 of consumer-ready products, and \$35 million in fisheries. During the same year, total exports of agricultural products totaled \$1.6 billion.

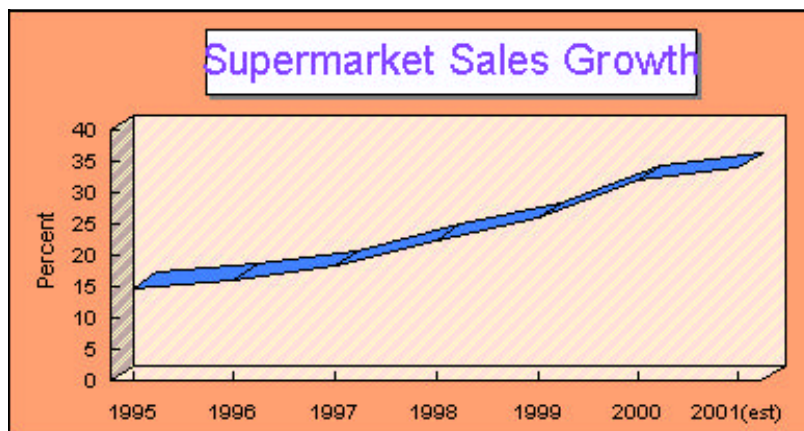
Guatemalan Imports of Consumer-Ready Products

E. RETAIL MARKET

Over the last six years the supermarket sector has been growing rapidly; almost quadrupling in



sales in that 6-year period, from \$128 million in 1995 to \$432 million in 2000. This increase is due to the increase in the number of outlets, the changing purchasing habits among consumers, who now are going to a supermarket more than before, and the increase in brand awareness. Retail outlets sales have grown tremendously in the last few years. In 1994, under 15% of food sales were at supermarket type retail outlets, the rest was at traditional wet markets and corner stores. However, by 2000 the percentage had increased to 32%. This year supermarket food sales should account for 34% of total retail food sales.



II. ROAD MAP FOR MARKET ENTRY

A. Supermarkets, Hypermarkets and Club Warehouse Outlets

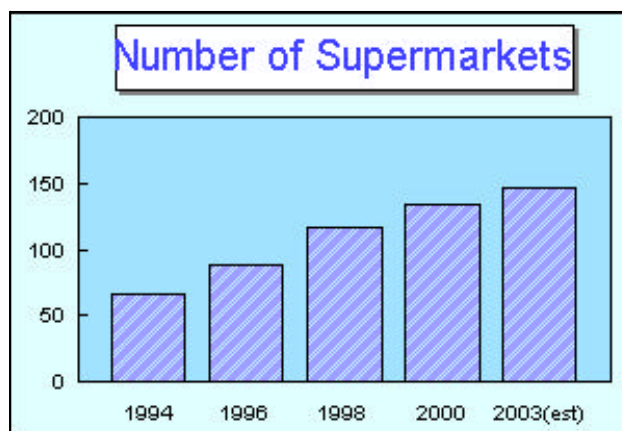
Entry Strategy

Success in introducing your product in the market depends on local representation and personal contact. Selecting a distributor is the easiest and fastest way to enter the market. In particular, it is best if this distributor is already supplying the supermarkets, in order to benefit from their existing customer base. The local representative or distributor should be able to provide market knowledge and guidance on business practices and trade related laws, as well as sales contacts. In many cases the local representative or distributor is also the importer. The FAS office in Guatemala maintains listings of companies that represent or distribute U.S. products in Guatemala. The office also has ongoing activities that provide opportunities to meet the Guatemalan trade.

In order to improve the odds of success in entering the market, U.S. suppliers should provide labeling or re-labeling services, competitive pricing, credit, catalogs, printed material and samples to importers/distributors. Firms should also consider providing support to importers in order to develop sales, by way of shared advertising costs of new brands, as well as training programs for sales personnel.

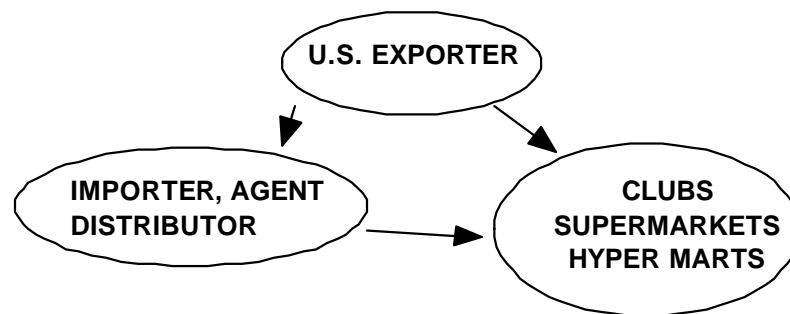
The number of supermarkets has grown in the last six years. In 1994 there were only 66 units, by 1998 there were 116, and this year there are 134. The trend is expected to continue, reaching 146 units by the year 2003.

In September of 2001, the second and third largest supermarket chains in Guatemala merged. La Torre and



Econosuper now have 22 units combined. The reason for their joining of forces, was to compete better against the Paiz group that dominates the market. Because of the stores locations, La Torre will cater to the more affluent consumer, while Econosuper will service the lower income consumer. Imported products will make up 40% of La Torre's product mix, while Econosuper will have less than 15%.

Distribution Channels



- Normally, products are imported by an importer or agent, who may also be the wholesaler and/or the distributor.

- Products represented by agents tend to be better promoted
- Most major supermarkets directly import some of their products
- Most importers work directly with brokers out of Miami, FL

Company Profiles

Yearly Food Sales in U.S. Dollars

A = Under 5 million B = 5-20 million
C = 21- 50 million D = Over 50 million

Retailer	Ownership	Sales	Outlets	Location	Purchase Type
Hiperpaiz Hypermart	Local Ahold	D	5	Guatemala City	Direct Distributor
Paiz Supermarket	Local Ahold	D	26	Nation Wide	Direct Distributor
Despensa Familiar Supermarket	Local Ahold	C	56	Nation Wide	Distributor
La Torre Supermarket	Local	B	12	Guatemala Esquintla	Direct Distributor
Econo Super Supermarket	Local	A	10	Guatemala City	Direct Distributor
Multi-Mart Supermarket	Local	A	2	Guatemala City	Direct Distributor
Price Smart Warehouse	Local U.S.	D	3	Guatemala City	Direct Distributor

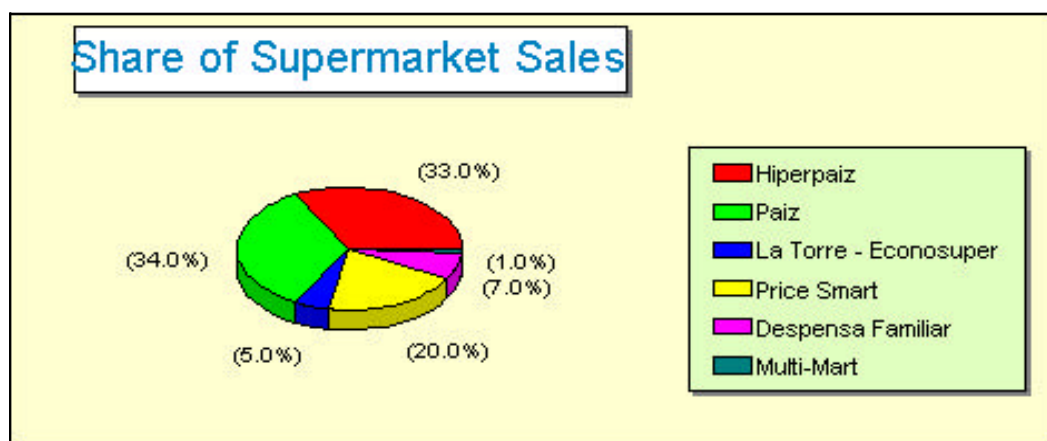
Multi-Mart is on the list, but it closed two stores during 2001, and it is expected to fold after this year's Christmas season. La Torre and Econosuper are listed as separate chains even though they have merged, since they are keeping their names and maintaining the same structure. Price Smart has really grown in the last year, adding two new stores in Guatemala city, and increasing food sales from \$60 million in 1999, to over \$100 million in 2000 and this year they expect to top \$150 million. Much of the growth in the retail sector was picked up by Price Smart. La Fragua, which owns the Hiperpaiz, Paiz and Despensa Familiar chains, had a great year in terms of growth. Their food sales for 1999 were projected at \$317 million, and for 2000 they reached \$370 million. That is a 17% growth in just one year and most of that increase can be attributed to the opening of Hiperpaiz Villa Nueva in early 2000. La Fragua and Royal Ahold formed a partnership in December of 1999, in which Ahold invested \$300 million in La Fragua, buying a large, but unspecified, share of the company. Presently, there are two Hiperpaiz in construction, one in Guatemala city, and the other in Quetzaltenango, which is the second most populated city in Guatemala.

LaFragua, which had 90% of the market during the 1990's, now only represents, 74% of the market. Price Smart has been able to capture 20% of the market in less than three years.

Trends and Highlights

- There has been a consolidation process among supermarket chains, both in Guatemala and El Salvador and Honduras. La Fragua has added 16 units in El Salvador in the last two years.

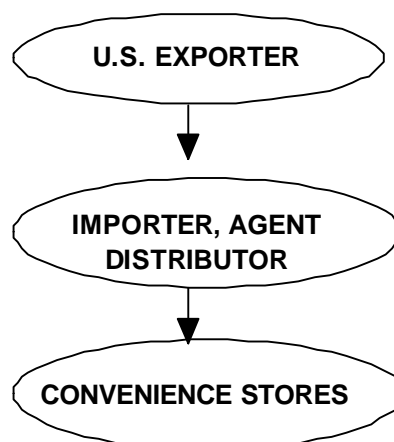
- Supermarkets are starting to look at markets in the interior



or of the country and expanding in that direction. Most of the units added in the last two years have been in the interior.

- Supermarket sales continue to grow and take sales away from wet markets.
- Imported products are capturing a larger share of the shelf space, going from 38% in 1999, to 45% in 2000.

- Convenience, and partially prepared foods are gaining grounds as consumers try to lower time spent preparing foods.
- Overall, frozen prepared foods are now accounting for 5% imported food sales, up from 2% in 1999.
- The membership discount club and bulk purchase concept has gained acceptance among consumers, as many find wholesale clubs much more suited for one-stop shopping.
- Food sales account for 20-25% of gross sales at wholesale clubs.



B. Convenience Stores

- Since their purchasing power is smaller, most convenience stores rely on agents, importers and/or distributors for their product.
- The same companies that supply the supermarkets also supply the convenience stores.

Entry Strategy

Entry is very similar to the supermarkets, hypermarkets and clubs. Please refer to page five of this report. However, there is one important difference that must be considered. The selected partner must have national distribution, or he won't be able to service all the convenient stores spread out all over the country.

Distribution Channels

- Normally, products are imported by an importer or agent, who may also be the wholesaler and/or the distributor.
- Importers can sell to convenience stores through their central distribution centers, however, this is not preferred by the chains and may limit sales.

- Direct distribution to the units is the preferred method of distribution and the best way to maximize sales. This allows the distributor/agent to monitor store inventories more closely, and make sure units are never out of product.

Company Profiles

Annual Food Sales in Millions of U.S. Dollars

A = 5-10 million

B = 10 - 20 million

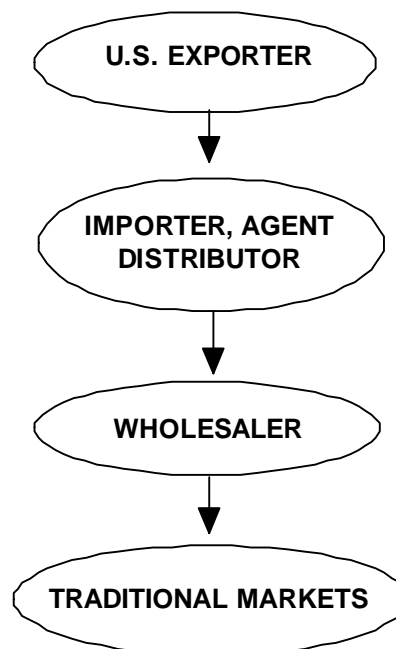
C = Over 20 million

RETAILER	OWNERSHIP	SALES	OUTLETS	LOCATION	PURCHASE TYPE
Essomart	Local & US	C	34	National	Distributors
Star Mart	Local & US	B	15	National	Distributors
Super 24	Local	C	19	National	Distributors
Select	Local & US	B	13	National	Distributors
Express	Local	A	12	National	Distributors

Trends and Highlights

- The convenience stores are the only business that offer 24 hour service besides pharmacies.
- Most convenience stores are found along main boulevards and busy avenues, as well as on the three national roads.
- They are also found in some of the major cities; however, the majority of the stores are located within Guatemala city limits.
- More than 70% of the products in the convenience stores are imported, most of it being from the US. In fact, many of the POS materials are written in English.
- 30% of their sales are prepared foods which include hot dogs, sandwiches, soups, fried chicken and pizza.
- Over 90% of their sales are food items, including beer and liquor. Not including gasoline sales.
- Average sales per unit is roughly \$1 million a year.
- Total Sector grew 12% in 2000, and 5% of that growth was in prepared foods.

- Growth for 2001 is expected to be only be 5-7%, due to the slow economy.
- The main players are Essomart, Tigermart, Starmart Select and Super 24. All of them with the exception of Super 24 also sell gasoline, and are operated by gasoline companies. All stores sell fast food, mostly hot dogs and sandwiches.
 - Essomart and Tigermart are operated by Esso
 - Starmart is operated by Texaco
 - Select and Express are operated by Shell
 - Super 24 is operated by the countries largest conglomerate, the Castillo Hermanos group, which also owns the national beer company.



C. Traditional Markets

Entry Strategy

There are two types of traditional markets in Guatemala. One is the open air market. This is where the local farmers sell their products. It is set up similar to a farmer's market. Each person has a stand and sells their product every day and at the end of the day takes home whatever is left. These markets sell a lot of fresh produce. The second are the corner stores, which are mom and pop operations. The number of these corner stores is impossible to count. It is estimated that there are two of these per every city block in Guatemala City alone. They are very small, on average 30sq ft, and carry an inventory, on average, of \$500. Again, the way to enter this market is through importers, distributors, and wholesalers. Most of the companies that supply this sector are the same that supply the other two. This sector accounts for very little of the imported food sales. The only imported product that sales well in this sector is cup-a-noodle soup.

Distribution Channels

- The distributor is the same who supplies supermarkets and convenience stores.
- The main difference is the inclusion of at least one wholesaler, sometimes more than one for products sold in the interior of the country.

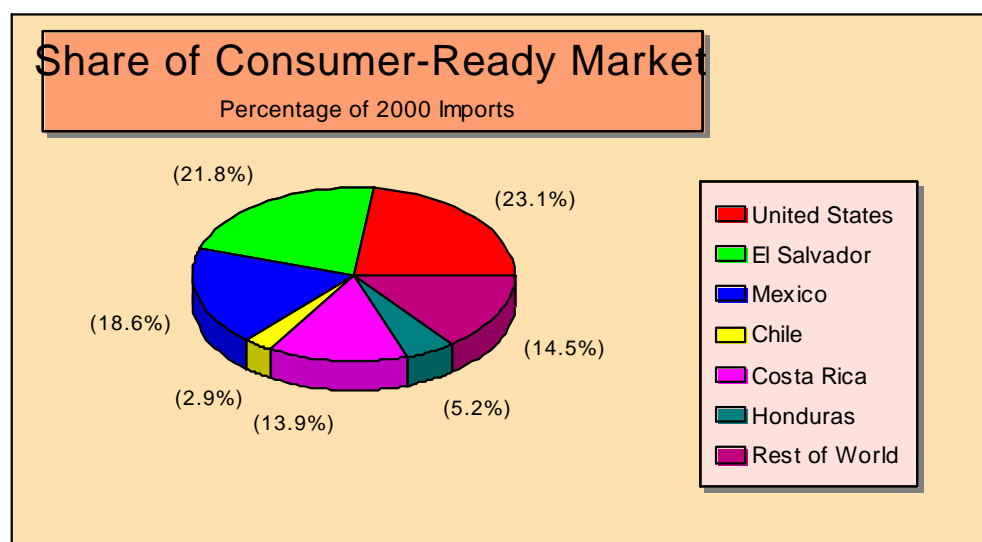
- This wholesaler gets the product to his customer base by route system, going store to store on a daily basis.
- They do not work on the basis of a purchase order, but carry sufficient inventory to supply the entire route.

Trends and Highlights

- Products entering the open air markets should be low cost and handled through a wholesaler.
- Products entering the mom and pop stores must be relatively non-perishable and low-cost items.
- Traditional markets pull much of their product from farmers and small wholesalers.
- Guatemala's underdeveloped infrastructure limits the size of these wholesalers.
- About 66% of retail food sales are still made through traditional markets.
- There has been a move away from open air markets due to their unsanitary practices.
- Small corner stores have a higher price per unit than supermarkets.

III. COMPETITION

The Central American countries, Mexico and Chile are the main competitors for the Guatemalan import food market. The existence of a free trade agreement between the Central American countries provides a great opportunity for constant exchange of products. Mexico has been expanding into the Guatemalan market and recently signed a free trade agreement with the northern triad of Central America. This new agreement has helped Mexico expand its market size, and become a more serious competitor of the U.S. Mexico already has a large presence in



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umer-oriented markets. Chile has also been gaining ground and is also negotiating a free trade agreement. Chile is very prominent in the fruit and wine markets.

El Salvador has traditionally been Guatemala's main trading partner and still continues to be an important partner, increasing its share of the Guatemalan market from 19.4% in 1999, to 21.8% in 2000.

In 1998, U.S. imports accounted for 22% of the total consumer-oriented food imports and in 1999 it increased to 31%. However, for 2000, the U.S. share fell to 23.1%. This was mostly due to the slow down of the economy, forcing many shoppers to find cheaper substitutes.

In 1999, Mexico's share of the consumer-oriented food market was 12.5%, and in 2000, it grew to 18.6% capturing almost all of the market share lost by the U.S.

IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market with Good Sales Potential

Recent data shows the U.S. export of processed fruits and vegetables, meats, and poultry have significantly increased. These product recently accounted for roughly 53% of the U.S. consumer-oriented exports to Guatemala. FAS Guatemala believes there will continue to be greater sales of red meat and poultry.

Other products with great market potential are:

- Processed Fruits and Vegetables
- Wheat Flour

- Baked Snacks and Candies
- Cheese
- Meats and Poultry
- Frozen Foods

Guatemala has completed its tariff reduction commitments. All food products without tariff rate quotas have a tariff of 5%, 10%, or 15%.

B. Products Not Present in the Market, because of Significant Trade Barriers

There are no products that are banned in the market. There are quotas on many items, including wheat, corn, rice, and apples. For a complete explanation and a review on how to export food products to Guatemala, please read this office's Exporter Guide 2000 at www.fas.usda.gov/scripts/attacherep/defaults.asp.

V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to Guatemala, please contact the U.S. Agricultural Affairs office at the address listed below.

Office of Agricultural Affairs, U.S. Embassy
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Tel: (502) 332-4030
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For more information on exporting U.S. agricultural products to Guatemala and other countries please visit the Foreign Agricultural Service home page <http://www.fas.usda.gov>